

2005 Medicare Premium Increase

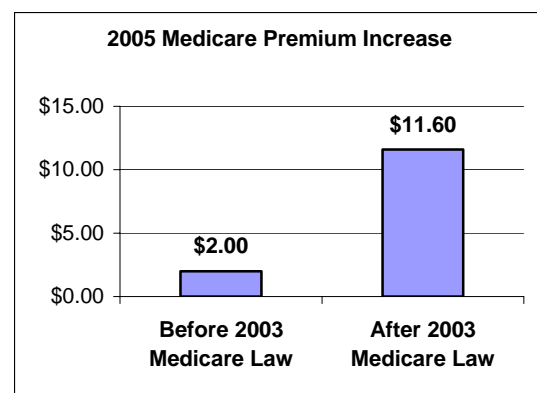
The Bush Administration recently announced its plans to increase the premium for Medicare outpatient services by 17.4% in 2005. This fact sheet examines the cause for and consequences of what will be the largest premium increase in Medicare's history.

In Dollar Terms

The monthly Medicare premium will increase \$11.60, from \$66.60 in 2004 to \$78.20 in 2005. This will increase annual out-of-pocket medical expenses for each Medicare beneficiary by \$139.20.

Causes

The 2003 Medicare law resulted in a large portion of the premium increase. Medicare premiums generally increase every year, due to inflation. Before passage of the 2003 Medicare law, the nonpartisan Medicare Trustees estimated that the 2005 premium would increase 3%, or \$2.00. The \$11.60 premium increase takes the 2003 Medicare law into account.



Some of the premium increase will help to finance Medicare benefits. For example, the 2003 Medicare law increased payment rates for doctors participating in Medicare, and it expanded preventive benefits.

About \$1.75 (or 15%) of the \$11.60 premium increase will go to increased taxpayer subsidies for private Medicare HMOs. HMO subsidies will increase the medical out-of-pocket costs of each Medicare beneficiary by \$21.00 in 2005. This subsidy will increase HMO payments significantly above the actual costs of providing care.

Deductible Also Increasing

Premiums are not the only out-of-pocket cost increasing for Medicare beneficiaries. The 2003 Medicare law also increases their deductible from \$100 to \$110 in 2005, and it provides for automatic deductible increases annually thereafter.